

## INSIGHTS

### INVESTMENT OVERVIEW

#### THE ESCALATION OF ETFs

Despite incredible growth and marketing attention, the exchange-traded fund (“ETF”) industry remains an enigma to many investors. In a nutshell, most ETFs are structured as open-end funds or unit investment trusts that track a basket of investments (i.e., benchmark or index) and whose shares trade intraday on a stock exchange. They are a rapidly growing segment of the investment industry and have enjoyed exponential growth in popularity as investment vehicles that offer investors access to inexpensive beta (i.e., systematic risk), as well as investable opportunities in specific trends, sectors, or asset classes. Of particular interest are the significant cost, tax, and trading advantages ETFs offer relative to mutual funds. We selectively use ETFs to reduce costs, diversify risk, and efficiently access particular sectors and trends. When used appropriately within the context of a properly diversified portfolio, we believe that ETFs serve as a complementary tool to accentuate risk-adjusted performance and lower internal portfolio management costs. That being said, due to the proliferation of these investments, selecting an appropriate ETF has increased in complexity due to an increasing number of potential risks associated with the volume of complicated, illiquid ETF products flooding the market. We employ a careful due diligence process and liquidity analysis before considering investing in an ETF.

The ETF industry has experienced rapid growth and significant change since the introduction of the first ETF in January 1993 – the SPDR S&P 500 ETF (“SPY”). On the next page, Chart I shows the proliferation and growth of ETFs over the past fourteen years. As of June 2014, there were over 1,360 ETFs registered within the United States, with approximately \$1.83 trillion of total net assets. Given the swelling abundance of ETFs, the task of analyzing the composition and quality of each individual ETF strategy is becoming increasingly difficult, which is why we have developed a thorough review process designed to evaluate and

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### FINANCIAL ADVISORY OVERVIEW

#### FINANCIAL PLANNING FOR DIVORCE—YOU MIGHT NEED MORE THAN A LAWYER

Divorce has an emotional, as well as a financial, impact on all divorcing couples. Anyone who has gone through a divorce will tell you that it can be one of the most challenging times in his or her life. Enlisting the help of a divorce financial planner can help all parties understand the financial implications both during and after divorce. If involved early in the process, a qualified financial advisor can provide the comprehensive and accurate financial information necessary to reach a workable agreement. Since settlements are in large part financial, advisors can explain options, set priorities, and assist with the difficult choices ahead.

Divorce planning assists with the division of assets and helps

*Continued on page 3*



#### INVESTMENT TEAM

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#### SPECIAL POINTS OF INTEREST

- Stock & Strategy Spotlight
- Monthly Index Review
- Around Rinehart

## INVESTMENT OVERVIEW

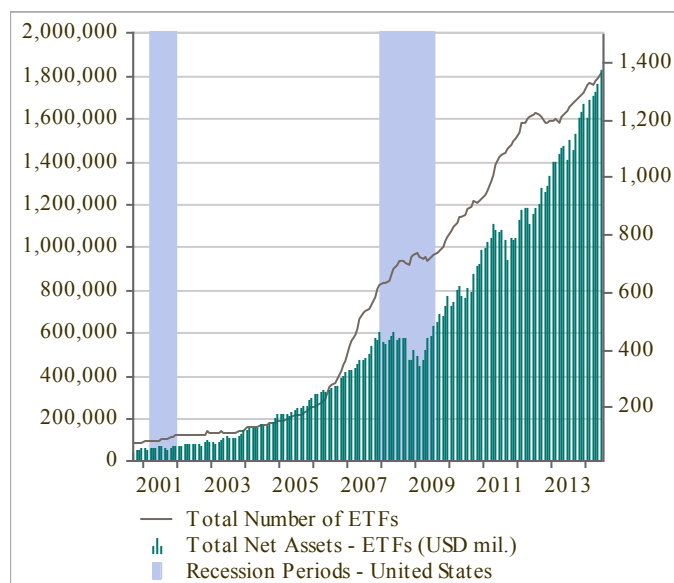
## THE ESCALATION OF ETFs

compare ETFs in order to find high-quality products that are suitable and appropriate for use across client portfolios.

Certain developments within the ETF industry have caused heightened concerns over the suitability and appropriateness of these innovative investment vehicles. Specifically, ETFs specializing in illiquid asset classes (e.g., junk bonds, bank loans, frontier markets, and municipal bonds) purport to offer increased access and enhanced liquidity to investors looking to gain exposure to more opaque asset classes, ignoring the lack of liquidity inherent in the underlying individual assets. We believe ETF instruments comprised of illiquid assets have potentially severe negative implications for an investor looking to sell during periods of extreme and severe negative market sentiment, such as a recession, where the pricing data on an ETF share could be completely disconnected from what the investor will actually receive upon sale.

If you would like a copy of the Investment Team's September 2013 Whitepaper, "The Emergence of ETFs and the Role They Have in Your Portfolio," please email

CHART I: PROLIFERATION &amp; GROWTH OF ETFs



Source: FactSet Research Systems

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## STOCK &amp; STRATEGY SPOTLIGHT

## Mutual Fund/Strategy:

Baird Intermediate Municipal Bond Fund (Institutional/Investor Class)

## Symbol:

BMBIX/BMBSX

## 2014 (YTD)

4.20%/4.03%

## Strategy Description/Investment Thesis:

The Baird Intermediate Municipal Bond Fund ("the Fund") embodies what we look for in high-quality, long-term active management. In particular, a portfolio management philosophy driven by an in-depth understanding of the municipal segment of the fixed income market, an experienced investment team conducting fundamental research and analysis, and a proven track record of delivering consistent returns over the long term. What's more, the Fund boasts a relatively low expense ratio, making it an attractive alternative to municipal bond ETFs given our stated liquidity concerns. The investment objective and philosophy focuses on adding incremental value through individual security selection, strategic positioning along the yield curve, and sector allocation: the Fund does not attempt to predict or forecast interest rate movements, utilizing a duration-neutral approach. The Fund's high degree of predictability and consistency reflects its adherence to a high-quality bias focused on wealth preservation in that it does not chase the investment trend du jour: this includes an emphasis on total return performance instead of a fixation on yield, which we find extremely encouraging and attractive. By not sacrificing the quality of its portfolio, this Fund has been able to consistently position itself for outperformance.

## MONTHLY INDEX REVIEW

Data as of August 31<sup>st</sup>, 2014

	August 2014	2014 (YTD)	2013
S&P 500	4.00%	9.89%	32.39%
Dow Jones Industrials	3.60%	4.84%	29.65%
NASDAQ Composite	4.99%	10.57%	40.12%
Russell 2000	4.96%	1.75%	38.82%
MSCI Emerging Markets	2.29%	10.95%	-2.27%
MSCI EAFE	-0.15%	2.93%	23.29%
Barclays US Aggregate	1.10%	4.81%	-2.02%

## FINANCIAL ADVISORY OVERVIEW

## ABOUT RINEHART

## FINANCIAL PLANNING FOR DIVORCE—YOU MIGHT NEED MORE THAN A LAWYER

determine what is equitable for the involved parties. This includes reviewing the tax implications of property divisions, including the primary residence and retirement plan assets, as well as how alimony and child support can be structured to maximize tax efficiency.

**PRIMARY RESIDENCE**

In many divorces, the couples' most valuable asset is their residence. Questions arise whether to keep it or sell it. If they plan to keep it, who is going to keep it? If it is to be sold, when is it going to be sold, before or after the divorce? The tax implications of these questions are usually overlooked until well after the divorce, and as a result, the sale

which may still be a factor in some states. Today, alimony is generally based on several different factors, including: need, ability to pay, length of marriage, previous lifestyle, as well as the age and health of both parties. As long as the requirements of alimony are met and the parties do not designate otherwise, the payments are tax deductible to the payor and taxable to the payee. Often, the divorce decree will provide for the continuation of alimony after the death of the payor spouse. However, how these payments will be secured in the event of a premature death of the payor is often overlooked.

Because of the financial complexity of many divorces, more and more financial professionals (e.g., financial planners and CPAs) are being asked to play an active role

*"The difference between successful people and very successful people is that very successful people say 'no' to almost everything." - Warren Buffett*

of the primary residence can create unforeseen income tax liabilities.

**RETIREMENT PLANS**

In most states, retirement benefits are considered assets that are subject to division in a divorce. This is accomplished through the use of a Qualified Domestic Relations Order ("QDRO"). What is often overlooked is the ability of the alternate payee to receive money from a qualified plan, pursuant to a QDRO without having to pay the 10% early withdrawal penalty if distributions are taken prior to age 59 ½. However, once the alternate payee status is changed, this exception no longer applies.

**ALIMONY**

It is important to finalize the division of property before determining the amount of alimony that should be awarded. Finalizing the property division will impact the need for and the amount of alimony support. Courts used to award alimony based on "fault,"

in helping their clients sort through the financial issues related to divorce. Most financial planners and CPAs excel in their chosen field, but they have little or no specific training related to the financial issues of divorce. The role of the financial planner is to help clients achieve their financial goals regardless of whether they are getting divorced or happily married. The financial planner develops a long term roadmap for achieving the client's goals and objectives in the future using specific assumptions. Conversely, a CPA typically looks at the details of the scenario as it is today and makes no future projections. In a divorce, CPAs often calculate the tax effect of dividing property and the effect of spousal and child support for one or two years. They typically do not project further into the future. To best meet the needs of divorcing clients, you need a blend of these two ideologies; the Certified Divorce Financial Analyst® ("CDFA™") designation was created to fill this need.

Rinehart Wealth Management is an experienced, boutique Registered Investment Advisor dedicated to independent, comprehensive wealth management. Founded in 1985 by Mary Rinehart, the firm, from its inception, has had a singular focus: to provide highly customized investment management and financial planning solutions to clients.

**Boutique Firm:**

Being a boutique wealth management firm allows us the flexibility to provide more personalized service and offer unique investment solutions to clients in a Fee-Only environment.

**Team Approach:**

Because each client's situation is different, the team of advisors is hand-selected to ensure areas of expertise are appropriately aligned with the client's specific needs and interests.

**Proprietary Investment Research:**

The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.



**SUCCESSFUL SUMMER SEMESTERS**

Although the school year is only just beginning, your Rinehart team has been studying hard to bolster their credentials and ensure they are always providing you with innovative solutions to your wealth management needs. We are incredibly proud of our employees who pursue further credentials and provide ongoing incentive to attain additional certification through our tuition and test reimbursement policy.

**CERTIFIED DIVORCE FINANCIAL ANALYST® (“CDFA™”)**

Sandy Carlson added yet another set of distinguished credentials to her pedigree: that of the CDFA™. Issued by the Institute for Divorce Financial Analysts™ (“IDFA”), the CDFA™ designation requires a minimum passing grade of 70% on all four module exams completed within one year, as well as at least three years of work experience in the financial services, accounting, or family law profession. To maintain the designation, CDFA™ professionals must report 15 divorce-related Continuing Education (“CE”) hours every two years.

**CHARTERED FINANCIAL ANALYST® (“CFA”)**

Elliott Van Ness successfully passed the Level III exam of the CFA Program and was awarded the CFA charter on August 28<sup>th</sup>. The CFA Program is a graduate-level curriculum designed around a comprehension of financial markets, as well as an in-depth knowledge of investment analysis and portfolio management, while emphasizing the highest principles in ethical and professional standards. The Program itself is organized into three levels, each culminating in a six-hour exam with historical pass rates averaging between 40-50%. In addition to completing the Program, the CFA Institute

(“CFAI”) requires at least four years of qualifying investment work experience, membership to the CFAI, and annual signed pledges to the CFAI Code of Ethics & Standards of Professional Conduct.

**HEARD ON THE STREET**

Daniele Donahoe was recently interviewed in the August 15<sup>th</sup> edition of the Charlotte Business Journal. When asked about her thoughts on the current market levels, she provided some insight into utilizing alternatives and outlined Rinehart’s view that the market has entered the later stages of a bull market.

**ECONOMIC OVERVIEW OFFERS CE CREDIT FOR CPAS**

In an effort to expand and promote our quarterly Economic Overviews, we have started offering both breakfast and lunchtime presentations to CPA firms interested in the Economic Overview as a way to receive CE credit. Please reach out to us via email for additional details and scheduling requests.

**IN THE COMMUNITY**

Rinehart Wealth Management is proud to announce that it will be sponsoring a table at the Dove House Children’s Advocacy Center’s fourth annual Children’s Voice Luncheon on September 9<sup>th</sup>. To learn more about Dove House and its mission, please visit their website: <http://dovehousecac.org/>.

In celebration of the back-to-school season, please join us at Bryant Park on West Morehead on September 13<sup>th</sup> for the Tossin’ for Tykes cornhole tournament hosted by the Charlotte Rotary Clubs in support of the Council for Children’s Rights. We will be decked out in our Rinehart best, tossin’ bags for a great cause. To learn more, please visit the event’s website: <http://www.tossinfortykes.org/>.

**Rinehart Wealth Management**

Wealth management is our only business;  
therefore, our attention is undivided and our  
intentions are transparent.

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